

Message Text

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71

ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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FM AMEMBASSY FREETOWN

TO SECSTATE WASHDC 3732

INFO AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY MONROVIA

AMEMBASSY CONAKRY

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1. SUMMARY: ACCORDING TO VISITING IMF TEAM, FUNDING AGREEMENT ON A STABILIZATION PROGRAM FOR SIERRA LEONE MAY NOT BE QUICKLY REACHED. THE GOSL HAS BEEN PRESENTED WITH A NUMBER OF UNPLEASANT OPTIONS BY THE IMF TO OVERCOME A PROJECTED BUDGET DEFICIT IN EXCESS OF DOLS50 MILLION. SIERRA LEONE OWES EXTERNAL DEBTORS--MOSTLY BRITISH, FRENCH, GERMAN AND ITALIAN COMMERCIAL CONCERNS--DOLS198 MILLION. THIS YEAR'S DEBT REPAYMENT IS ALMOST DOLS31 MILLION IN PRINCIPAL AND DOLS11 MILLION IN INTEREST.

2. THE IMF TEAM SPENT THE WEEK OF AUGUST 9-13 DISCUSSING A FIRST TRANCHE DRAWING OF DOLS11.5 MILLION CONTINGENT ON STRICT GOSL ADHERENCE TO CONDITIONS INVOLVING REDUCED EXPENDITURES, INCREASED REVENUE COLLECTION, A HALT TO FURTHER SHORT TERM CREDIT OBLIGATIONS, AND POSSIBLE DEVALUATION. ALMOST CERTAINLY FURTHER TRANCHES WILL BE REQUIRED TO STABILIZE THE ECONOMY. THESE WOULD BE SUBJECT TO STILL STRICTER COMPLIANCE TO THE LIMITED OFFICIAL USE

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CONDITIONS OF AN EXTENDED STANDBY AGREEMENT. THE IMF TEAM

NOTED THAT CREDIT EXTENDED EARLIER IN 1976 THROUGH THE OIL FACILITY AND EXPORT COMPENSATORY TRANCHES ALSO HAD CONDITIONS ATTACHED THAT WERE NOT CLOSELY ADHERED TO BY THE GOSL.

3. THE GOSL APPARENTLY WAS SURPRISED BY THE IMF TEAM'S INSISTENCE ON STRICT ADHERENCE TO THE CONDITIONS OF A STANDBY AGREEMENT. THE GOSL, ACCORDING TO THE IMF TEAM, IS WILLING TO FOLLOW A NUMBER OF HALF-WAY MEASURES IN ORDER TO GET A STABILIZATION PROGRAM, BUT NOT TO THE DEGREE THE TEAM FEELS IS NECESSARY IF IT IS TO RECOMMEND APPROVAL OF A STANDBY AGREEMENT TO THE IMF GOVERNING BOARD. THE BIGGEST STICKING POINT IS IN FURTHER REDUCING EXPENDITURES, ALREADY DRASTICALLY SLASHED. THE ONLY MEANINGFUL OPTION LEFT TO THE GOVERNMENT IS TO FIRE LARGE NUMBERS OF CIVIL SERVANTS. PRESIDENT STEVENS SEEMS DETERMINED TO AVOID THIS STEP, AT LEAST UNTIL NEW ELECTIONS ARE HELD.

4. THE GOSL HAS ASKED THE PARIS CLUB TO EFFECT A RESCHEDULING OF ITS EXTERNAL DEBTS. BUT UNLESS A STANDBY AGREEMENT IS REACHED, RESCHEDULING SEEMS UNLIKELY. THE IMF ESTIMATES THAT THE RESCHEDULING WOULD REDUCE PRINCIPAL PAYMENTS THIS YEAR TO DOLS7 MILLION, GIVING THE GOSL SOME CHANCE OF COVERING THE REMAINING BUDGETARY GAP THROUGH A COMBINATION OF IMPORT RESTRICTIONS, INCREASED TAXATION, AND INTERNAL BORROWING.

5. SO FAR THE GOVERNMENT ATTITUDE TOWARD A STABILIZATION PROGRAM SEEMS MIXED. VICE PRESIDENT AND MINISTER OF FINANCE KOROMA, MINISTRY OF FINANCE OFFICIALS, AND THE GOVERNOR OF THE BANK OF SIERRA LEONE REPORTEDLY CLAIM A STANDBY AGREEMENT IS ESSENTIAL AND PROBABLY ARE PREPARED TO IMPLEMENT STRICT CONTROLS. BUT PRESIDENT STEVENS HAS BEEN QUOTED AS SAYING "COUNTRIES DON'T GO BANKRUPT" AND HIS ECONOMIC ADVISOR, DR. ALPHA-KPETEWAMA, HAS SAID THE GOSL IS IN NO HURRRY TO CONCLUDE AN AGREEMENT SINCE IT HAS NO FUNDS TO PAY ANY DEBTS.

6. BARRING LAST MINUTE EVENTS, THE IMF TEAM IS DUE TO LEAVE AUGUST 13, WITHOUT AN AGREEMENT. IT REMAINS HOPEFUL THAT A STANDBY AGREEMENT WILL BE CONCLUDED EVENTUALLY, WHEN THE GOVERNMENT HAS HAD TIME TO CONSIDER IN DETAIL THE IMF'S VARIOUS PROPOSALS AND THE IMPLICATIONS FOR THE ECONOMY IF THE LIMITED OFFICIAL USE

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GOVERNMENT SIMPLY DEFAULTS ON EXISTING LOANS.
NORTH

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NNN

Message Attributes

Automatic Decaptioning: X
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Draft Date: 13 AUG 1976
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Decaption Note:
Disposition Action: RELEASED
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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
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Disposition Remarks:
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